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ABSTRACT

Job placement, unemployment insurance, and active labor market policy in Germany were reviewed. The following were among the review's main conclusions: (1) measures of active and passive labor market policy are still regarded as important to combating unemployment and improving the matching function of the German labor market; (2) the many different instruments of active labor market policy that are in use in Germany have been only slightly "modernized" in Germany's new Job-AQTIV Law, which emphasizes activation of the unemployed and follows the trend observed in other countries of brining together elements of active and passive labor market policies; (3) Germany's multitude of instruments of active labor market policy and their high cost are partly due to the events following Germany's unification; (4) unemployment remains high in the eastern part of Germany, and only parts of its economy can stand up to competition on the world market; and (5) Germany's high degree of intervention in the labor market is intended to ease the labor market situation and make it socially more acceptable. It was concluded that measures of active labor market policy will likely result in a redistribution of the risks of unemployment rather than in a lasting reduction of the unemployment level. (Contains 41 references.) (MN)

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Labour Market Policy in Germany

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- observation of and forecasts for the German labour market
- labour market statistics
- labour market theory and policy
- evaluation of employment programmes
- regional and international labour markets
- occupation sociology
- research in skills and qualifications
- technological development and the labour market
- business and personnel management

Uwe Blien, Ulrich Walwei, Heinz Werner*

Labour Market Policy in Germany

Job Placement, Unemployment Insurance and Active Labour Market Policy in Germany

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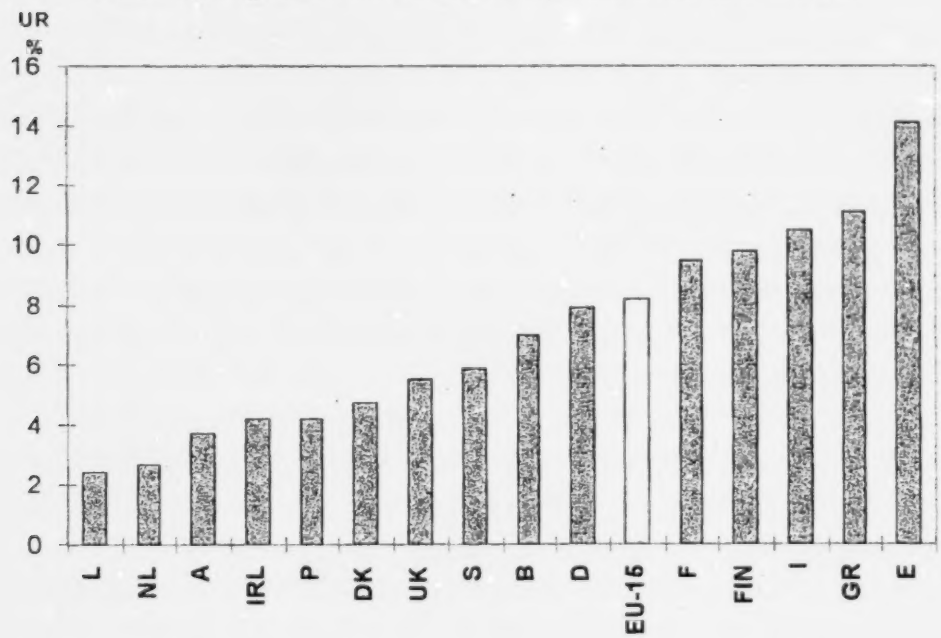
0 Introduction

The following paper originated from a contribution to an international conference.[1] There was seen to be little literature available in English on job placement, unemployment benefits and the diverse measures of labour market policy in Germany. The IAB therefore decided to revise the original paper and publish it. It focuses to a considerable extent on the tasks of the German Federal Employment Service, in other words on job placement, the payment of wage-replacement benefits in the event of unemployment and on the measures of active labour market policy. Each chapter begins with a theoretical overview of the particular area of activity. This is then followed by the actual description of the area. The final chapter shows some new trends and refers to a number of challenges for evaluation research on labour market policy measures.

1 Basic labour market information

Compared with other European countries, Germany has a relatively high rate of people out of work (Figure 1).

Figure 1:
Unemployment rates in EU-countries 2000



Source: Eurostat: Labour Force Survey

[1] The original paper was presented by Uwe Blien and Heinz Werner at the International Workshop on the Role of Employment/Unemployment Insurance under New Economic Environment, in Seoul on September 12 – 13 2001. This workshop was held by the Korea Labor Institute, International Labour Organization and the Friedrich Ebert Foundation. The authors decided to revise the paper for an international readership. Ulrich Walwei kindly agreed to collaborate on considerable parts of the paper.

The labour market situation in Germany was marked by high, and till 1997 increasing, levels of unemployment. Since then a slight improvement has taken place (Figure 2). In 2000 approximately 3.9m people (1997: 4.4m) were registered as unemployed in the annual average. This corresponds to an unemployment rate of 9.6 % (national definition: registered unemployed related to the civilian labour force; 11.4% in 1997).

Figure 2: Unemployment rates 1948 - 2000

Note: Unemployment rate: registered unemployed in relation to the labour force
Source: Federal Employment Service (Bundesanstalt für Arbeit)

It can be assumed that there are more potential job-seekers than the registered unemployed people. Participants in certain labour market policy programmes, in particular in training measures, and the people in the so-called "hidden labour force" must also be taken into account. The former group was estimated in 2000 at 0.7m people in employment equivalents. The "hidden labour force" consists of people who are not seeking a job through the employment office and people who are not seeking work at present but who would look for and take up employment if the economic situation improved. There are approximately 1.3mpeople in this group.

The development of unemployment over the course of time is especially worrying, as even after an economic upswing, unemployment has remained high. During the economic recovery in the late 1980s and early 1990s, unemployment decreased less than employment increased. As a consequence of the persistent employment crisis a process of selection among the unemployed took place and a hard core of unemployed people has developed. A large proportion of them are long-term unemployed individuals. In addition to the long-term unemployed, hard-core unemployment is also made up of people whose employment is repeatedly interrupted by periods of unemployment. These multiple spells of unemployment - also referred to as "perforated" (long-term) unemployment - do not always receive the same attention as long-term unemployment, even though they can have similar unfavourable

consequences on an individual's subsequent career and chances of reintegration into the labour market.

From the point of view of labour market policy, particular attention is to be paid to the "hard core" of the unemployed: multiple spells of unemployment affect in particular young people and male workers with low skills, whereas long-term unemployment is concentrated in Germany more on older workers. It must also be pointed out that the German labour market situation is characterised by considerable regional discrepancies, especially between the western and the eastern parts of the country. Long after unification (1990) unemployment remained high in the east: in 2000 the unemployment rate in western Germany was 7.8 % whilst the figure in eastern Germany was 17.4%.

Nevertheless, since the economy began to recover in 1998, employment performance in Germany has improved. After declining consistently from 1993 to 1997, employment then increased (in 1998 by 1.5 per cent in the west and 1 per cent in the east)[2]. Unemployment decreased by 0.5m people and underemployment ("hidden labour force") by 1.0m. But employment in 2000 was still lower than in the early 1990s. With the onset of the recession the favourable developments came to a halt in 2001/2002.

Finally, it must be said that unemployment in Germany has remained high over the last decade. The goal of full employment has failed to be achieved for more than twenty years. The German recipe for success – relying on technological innovation with a well-trained workforce – is no longer producing positive results for the labour market as it did in the past.[3] In order to make the best use of Germany's substantial human resources, reforms need to slow down the increase in labour costs, enhance product-market competition and strengthen labour market flexibility.[4] In response to these challenges, changes have to be made and are already being made in German employment policies.

2 The Public Employment Service in Germany

Functions

In contrast to many other countries, Germany's state labour market activities are concentrated in one institution: the Federal Employment Service (Bundesanstalt für Arbeit) organises job placement, pays unemployment insurance and implements active labour market policy, e. g. employment and training schemes. The main functions of the Federal Employment Service include:

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[2] There have been two significant revisions (in April 1999 and August 2000) to the national accounts data which are the source for total employment data. Four million "marginal workers" (with only a few hours of work per week), who were formerly excluded from the count are now included. This inclusion is in line with international recommendations on labour statistics. The result of the revision is, on the one hand, an increase in the total number of employed and, on the other hand, a reduction in the fall in employment over the 1990s. As a result growth of GDP per person employed, or productivity, is now substantially lower than in former accounts.

[3] According to a new assessment this might at least partly be due to the fact that German industry specialised on segments on the world's product markets which are characterised by a low rate of technical progress or by an inelastic demand or by both factors (Appelbaum, Schettkat 1993 Schettkat 1997, Möller 2001).

[4] OECD (1999, 2000, 2001): Economic Surveys – Germany, Paris. From the IAB see: Walwei, Werner, König (2001).

- placement in jobs and training places. Placement services are an integral part of the public employment service;
- administration and payment of unemployment benefit and unemployment assistance;
- the organisation of further training and retraining schemes for job-seekers, the implementation of job-creation and other employment schemes and the distribution of labour market information; and
- vocational guidance.

Organisational structure of the Federal Employment Service

The Federal Employment Service is a public institution with administrative autonomy. The legal framework is set by the government. In matters that require no further government regulation, the duties of the Federal Employment Service are organised and carried out by tripartite bodies. Representatives of employees, employers and public institutions serve in the governing bodies. These are the Board of Governors (Verwaltungsrat) and the Executive Board (Vorstand). At the level of regional employment offices, the duties of autonomous administration are handled by Management Committees (Verwaltungsausschuss). The public employment service has three categories of offices: 181 local employment offices (Arbeitsämter, with about 660 branch offices), 10 regional employment offices (Landesarbeitsämter) and the head office (Hauptstelle) in Nuremberg. A staff of about 90 000 people is employed by the Federal Employment Service.

As of 27 March 2002 the management of the Federal Employment Service now consists of a newly-created three-person Executive Board, which was appointed by the Federal Government. The chairperson of this Executive Board sets the guidelines for the management. The Board of Governors, whose members have been reduced in number considerably, acts as a self-government committee. Furthermore the Federal Government has set up a commission, "Modern Services on the Labour Market". The members of this commission were appointed by the Federal Government. In August 2002 this commission is to submit proposals for a comprehensive reform of the future distribution of functions, a new organisational structure and an implementation concept.

Funding

The main budget income (about three quarters) for the Federal Employment Service to finance its functions is derived from employers' and employees' social insurance contributions (in contrast to some other countries where funding of unemployment insurance is predominantly provided by employers, or taxes, or a combination of both). The current rate is 6.5% of the wage/salary subject to contributions up to the basis of assessment for contributions to pension insurance. Contributions are paid half by employers and half by their employees who are subject to social insurance payments. Any deficit will be covered by the government. The following people are not under obligation to contribute to this insurance:
- civil servants, students and schoolchildren;
- workers who are permanently unavailable for job placement, because of diminished work capacity;
- those with short-term or occasional jobs;
- employees with an income below € 325 (about US$ 300);
- employees aged 65 and over.

The contributions, just like the social contributions for health, long-term care and retirement insurance, are paid by employers as part of their overall social insurance contribution. The health insurance providers as "collecting agencies" pass these contributions on to the Federal Employment Service.

Parallel to the rise in unemployment rates and the growth of long-term unemployment in Germany, not only have payments to unemployed people increased, but also active labour market policies have moved to the centre of the labour market activities. German unification brought about a growing importance of labour market intervention. Labour market policies had to and still have to serve as a bridge over the "troubled water" of the transformation process until a sufficient number of new jobs has been created. The Federal Employment Service spent € 49.6 billion (about US$ 44 billion) and the Federal Government € 16.2 billion on labour market policies in Germany in 1995. Expenditure on active labour market measures amounted to € 20.5 billion. Around 50% of this spending on active measures was spent in eastern Germany. According to OECD data public expenditure on labour market measures developed as shown in Table 1. In relation to other countries Germany spends a comparatively high percentage of GDP on measures, in particular on passive schemes.

Table 1: Public expenditure on labour market programmes in Germany (as a percentage of GDP)

	1985	1991	1996	2000
Total expenditure	2.23	2.14	3.92	3.13
Active measures	0.81	1.04	1.43	1.23
Passive measures	1.41	2.52	2.49	1.89
Public employment services and administration	0.21	0.22	0.23	0.23

For reference: GDP in 2000: € 1982 billion
Source: OECD, Employment Outlook, various issues

3 Job-matching through placement services[5]

3.1 Some theoretical considerations

Labour markets are not homogeneous. Jobs and skills differ greatly with respect to level and scope and there is a wide variety of labour market segments. In addition, personal attitudes on both sides of the market can play an important role. A lack of transparency causes problems of matching labour supply and demand. The fact that the required information is not cost-free makes it reasonable to have certain mechanisms or institutions that are able to carry out an efficient exchange. Examples of such channels of information are newspaper advertisements, informal contacts, or intermediaries.

[5] Cf. for the following Konle-Seidl and Walwei (2001).

The role of placement services can be regarded as that of an intermediary in the labour market. They are mediators who narrow down the set of employers and workers. By doing so they can lower costs and reduce uncertainty on both sides of the market

Only where placement services have expert knowledge of specific parts of the labour market can they expect to be brought into the search process as intermediaries. Due to the peculiarities of the labour market, the reputation of employment services is of significant importance for their actual use. This is due to the fact that the actual benefit of using placement agencies can not yet be determined on conclusion of the contract.

Positive employment effects at macro-level only result if jobs are filled by placement services which otherwise would not have been filled (or not as quickly) by other recruitment channels. The overall employment effect might be reduced because firms compete with each other, or when the filling of vacancies can only be achieved by poaching.

It must be emphasised that additional jobs can hardly be created through more job placement activities. Thus unemployment can be reduced through (public or private) job placement only on a limited scale. More job placement activities are to be regarded first and foremost as an additional and useful search channel in the filling of vacancies. As a result, the transparency on the labour market may increase followed by a probably greater turnover in employment. More movement on the labour market would, in general, lead to an improvement in the quality of job-matching, e.g. if workers employed in positions below their skill level are used in accordance with their qualifications. Greater fluctuation can, therefore, also open up better employment opportunities for the problem groups of the labour market. If, for example, skilled workers employed in positions below their status find a better job due to more efficient placement services, semi-skilled or unskilled vacancies will have to be filled again. The positive effects of higher fluctuations can be partly offset if the firms lose people with firm-specific skills. They may respond by paying increased wages to keep these people. This might even produce additional unemployment if the wages are higher than those at a market clearing situation due to an efficiency wage mechanism.

In general, public placement services are an integral part of active labour market policies which can be delivered by local communities as well as by public employment services. In more and more countries local communities provide public placement services especially in order to find jobs for welfare recipients. This is due to the fact that they play an increasing role in delivering active labour market policies and may co-operate with the public employment service or provide placement services quite independently. However, the main public provider for placement services is still the public employment service.

3.2 The role of public and private placement services

In principle, there are three models possible for the organisation of public and private placement services: monopoly, coexistence and market systems.

- **Monopoly systems** can either be strict or moderate monopolies. The purpose of strict monopolies is to ensure that the public employment service is afforded a strong position through the prohibition of private placement services of any kind and through the requirement of mandatory registration of vacancies. By contrast, in the case of moderate monopoly systems the use of the public employment service is voluntary for both employers and job-seekers (but obligatory for the unemployed receiving benefits). In

moderate monopoly systems private placement services are allowed only in exceptional cases, that is, for example for certain occupational groups (e. g. executives or entertainers).

- In **coexistence systems** the public employment service and private placement services operate side by side. In a free coexistence model, profit-making private placement services are allowed, without geographical restriction or limitation to certain groups of occupations. In a regulated coexistence model, licensing provisions may be introduced which create "artificial" barriers to market entry in terms of staff and operating requirements. Quality standards and monitoring by state authorities may provide some consumer protection. Over time one can observe a strong trend towards deregulation in the private placement services sector in EU countries. Now the large majority of EU countries have a coexistence model. Germany, too, belongs to this category.
- In a purely **market system** only private placement services provide mediation services. Such a system does not necessarily imply the absence of any public intervention. For example, matching tasks may have been contracted out from the public employment service to private placement services. Therefore, we have to distinguish between semi-market systems and pure market systems. Semi-market systems imply the existence of public intervention in search activities but no public provision. By contrast, in pure market systems public intervention is absent. A pure market system need not necessarily reflect a particularly liberal approach, but may also be a reflection of the stage of economic development reached by certain countries which can not afford to finance public employment service activities.

3.3 Job placement services in Germany

3.3.1 Public placement service

For more than six decades (from 1931 to 1994) a placement monopoly existed in Germany which virtually prohibited private agencies, in particular those working on a commercial basis, from carrying out activities in the field of job placement and placement in training places, and granted the public employment service (Bundesanstalt für Arbeit) sole responsibility for job placement. Apart from a few exceptions, commercial forms of private job placement in particular were prohibited. In 1994 the picture changed. Since then the conducting of private job placement has been permitted; public and private placement services can now exist side by side, though until 2002 private placement services were only permitted with a licence from the Federal Employment Service.

Although utilisation of the public placement service is basically voluntary, there is an obligation for unemployment benefit recipients to report to the employment office at regular intervals or at least on request. In contrast there has never been an obligation on the part of employers to register job vacancies with the employment service.

Table 2: Vacancy shares of the German public employment service

	Hirings (in 1000s)	Inflow of registered vacancies (in 1000s)	Vacancy registration rate (as a %)
	1	2	2/1
1985	5 836	1 553	29.6
1990	7 600	2 297	32.5
1995	5 993	2 337	42.2
2000	8 800	4 103	46.0

Source: Federal Employment Service - official statistics (different years)
IAB Topics No. 46, p. 22

Table 2 shows that liberalisation in 1994 did not lead to a decline in the performance of the Federal Employment Service. There has been a steady growth in the vacancy registration rates since the mid-1990s.

The local employment offices of the Federal Employment Service have been continuously re-organized to increase performance. Recently, measures have been implemented to reduce bureaucracy and simplify administration ("Employment Office 2000"). Decision making is now more decentralised and local employment offices have been given greater competencies. It is planned to set up a controlling system (monitoring of efficiency) and to amplify self-service systems. At present 12% of job-seekers (0.5 million out of 4.2 million public employment service placings) use self-service systems (incl. Internet). The remaining 88% of job-seekers still consult placement officers. The information on job applicants is made available to enterprises via terminals, the Internet and via placement officers. The Federal Employment Service has a leading position in online job databases. Self-service vacancy information services for jobs and training places (SIS, AIS and ASIS)[6] and KURS, the further training database, are available at the employment offices as well as via the Internet. The Federal Employment Service web-site www.arbeitsamt.de is the largest employment web-site in Germany. In February 2000 360 000 job offers were placed in the Vacancies for Job-seekers System (SIS) and 1.5 million job-seeker profiles were placed in the Employer Information System (AIS), which was implemented in 1998. ASIS offers 200 000 training places. Additionally, specialised job databases are implemented which cover certain market segments: managerial staff, start-ups (since 1999), IT personnel (since 2000) and engineers (2001).

The IAB employer survey of vacancies has provided information since 1994 regarding methods of filling vacancies. Table 3 shows indicators for the use and the success of various search methods. According to this information newspaper advertisements and informal channels are still the most frequently selected and most successful search methods. The surveys have only recently begun to include the Internet as a further job search possibility.

The user and success rates of the public employment service differ considerably from the official statistics. One reason for these discrepancies may be the fact that surveys rely very much on the memory of employers. Especially the large number of short-term vacancies must be underrepresented. This is relevant here because the public employment service has a high

[6] SIS (Stelleninformationssystem) – Information system on vacancies for job-seekers; AIS (Arbeitgeber-Informationssystem) – Information system on job-seekers for employers; ASIS (Ausbildungsstellen-Information) – Information on training places

market share in these segments, which may explain, at least partly, its underestimation in survey data. The other possible reason for differences between administrative and survey data may be poor reliability of the vacancy and placement figures of the public employment service. A recent report by the Federal Audit Office found that the official statistics of job placements were considerably inflated. This affair led to the resignation of the president of the Federal Employment Service.

The IAB employer survey also brings to light employers' opinions regarding the public employment service. The main arguments of the enterprises for the inefficiencies of the public employment service are: the unwillingness of the unemployed to work, unsuitable applicants, and public agencies being too bureaucratic and too slow.

Table 3: Recruitment methods: ways of filling vacancies and their success in Germany (1994-1999)

Recruitment Methods	Western Germany						Eastern Germany					
	User rate (%)			*Success rate(%)*			*User rate (%)*			*Success rate(%)*		
	1994	1996	1999	1994	1996	1999	1994	1996	1999	1994	1996	1999
Wanted ads placed by company	51	50	55	42	39	35	24	23	25	16	13	13
Replies to ads placed by job-seekers	6	6	8	3	1	1	6	4	4	2	1	1
PES	32	38	38	13	13	14	37	49	54	22	34	35
PRES	2	2	5	1	2	2	2	1	2	1	1	1
Display at company gate	3	4	3	1	1	1	2	1	3	1	0	1
Internal advertisement	14	17	19	2	3	3	7	6	8	2	2	2
Selec. fr. applicants applying on own initiative	18	18	23	12	12	12	18	13	19	17	9	12
Information from staff	25	24	29	16	15	18	36	28	30	27	18	17
Without specification				10	14	8				12	22	18
Total	151	159	180	100	100	100	132	125	145	100	100	100

Source: IAB surveys of vacancies (different years)
IAB Topics No. 46

PES: Public Employment Service, PRES: Private Placement Services

3.3.2 Private placement services

On 1 August 1994 the monopoly of the Federal Employment Service concerning job placement ended by passing a law allowing regular activities of private placement services. Up to April 2002 (for new developments see below) these activities were connected to a licence that was granted by the Federal Employment Service if certain conditions were satisfied, e.g. personal suitability, no criminal record, and appropriate business premises.

When an application was made for the first time the licence was initially limited to three years. On further application it could then be extended indefinitely. In operating the employment agency, the licence-holder also had to observe some obligations. In particular, he/she may not request any fee from job-seekers. The amount to be paid by the employers to the

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private agency is not regulated. In general it is graded according to percentages of the remuneration, which may range from 12-15% of the annual gross wage.

The development of private placement services has not been spectacular. Private agencies now account for only two per cent of total job placements.

Figure 3: Market Shares[1] of Public and Private Job Placement Agencies in Western Germany (1979-1999[2])

1) Defined as number of placements (>7 days) divided by the number of recruitments
2) Data for 1999 estimated

PES: Public Employment Service, PRES: Private Placement Services

Public and private placement services can work together. Co-operation between the two has so far been rather rare, but like in other EU countries there is a new and increasing trend towards co-operation. There are bilateral agreements between the Federal Employment Service and private agencies in a lot of areas. They range from bilateral recommendations in order to increase the matching possibilities, the mutual use of job-seeker and vacancy data-bases, to the delegation of placement tasks to private placement services. The official view at the Federal Employment Service is that they do not compete with private agencies and that co-operation and partnership with profit-making agencies as well as with voluntary and public bodies is beneficial, and links between the public employment service and private placement services, especially at local level, will increase in the future.

Since April 2002 the latest development that must be reported is that unemployed individuals who are entitled to unemployment benefit or unemployment assistance may request a placement voucher from their employment office. The requirement for this is that they have been unemployed for three months and have not yet been placed in employment. The

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placement vouchers are made out for the sum of € 1500 (after a period of unemployment lasting between three and six months), € 2000 (after six to nine months) or € 2500 (after nine months) and are valid for three months. People employed in job-creation measures or structural adjustment measures are also entitled to the placement vouchers.

With the placement voucher the unemployed person or employee can call in the assistance of a private placement service of his/her choice. Both the worker and the placement service must conclude a written placement contract which also includes the fee for a successful placing. The amount stated in the placement voucher is the maximum permitted.

If during the period for which the voucher is valid the activity of the private placement service results in an employment relationship, the placement service is paid the amount on the voucher in two instalments: the first one, amounting to € 1000, at the beginning of the new employment relationship and the remaining amount when the employment relationship has lasted at least six months. If an employment relationship lasting only three to under six months was found for the unemployed person, the placement service receives € 1000.

The restrictions on conducting private job placement were largely lifted with this new regulation. A licence from the Federal Employment Service is no longer necessary, only a police certificate of good conduct and a registration of the business. There are no plans for the placement services to have to report to the labour administration e.g. concerning the placings (apart from the placement vouchers).

4 Unemployment benefit system

4.1 Some theoretical considerations

The essential role of an unemployment benefit system is to provide income security during spells of involuntary unemployment. From a macroeconomic point of view the unemployment benefit system is a kind of "automatic stabiliser" which supports consumption in an economic downturn. Unemployment benefits thereby contribute to consumption smoothing, at both the individual and the macroeconomic level and to the promotion of efficient job search – facilitating a better match between supply and demand on the labour market. Finally, by transferring the uncertainty of risk from the individual to the community, social insurance enhances the welfare of the community as a whole (ILO 2000: 148).

The risk of short-term and frictional unemployment (time-lags between two jobs) can readily be covered by self-financing insurance schemes. But high unemployment resulting from national or international recessions, may cause the expenditure of an unemployment insurance scheme to exceed its revenue. Payment of unemployment benefit under these conditions helps to mitigate the recession. However, it must of course be financed – either out of the scheme's own reserves or from the state budget. This can be done in the form of a loan or a subsidy. Over the years, unemployment benefit schemes have preserved their viability by a variety of mechanisms, such as defining the risks in precise terms, being explicit and often restrictive about coverage, and attaching to the provision of benefits a range of controlling and other conditions, the most important of which is probably the duration of benefits.

These positive effects of social protection may sometimes be associated with negative consequences for employment or unemployment. Generous unemployment benefits may lead

to an increase in the reservation wage – the wage level at which an unemployed person is prepared to take up work. In this case they increase structural unemployment. They may also lead to longer periods of time until the labour market reaches a new equilibrium after external shocks have occurred. Besides the macro-level there may also be negative effects at micro-level: high wage replacement rates associated with long duration of benefits may lead to disincentives when looking for a job or when having to decide whether or not to accept a job. Long-term unemployment may be the consequence. To tackle disincentives, countries are increasingly resorting to policies of "activation" of the unemployed (in the form of incentives and sanctions).

In the following an outline of the German unemployment benefit system is given, including social assistance – the last safety net for people out of work. The chapter closes with some remarks on new developments.

4.2 Unemployment benefit (Arbeitslosengeld)

Unemployment benefit is an insurance benefit which is payable monthly by cheque at a "wage-replacement rate" (Entgeltersatzquote) of 67% or 60% of the last net wage/salary paid (see below), without taking any other income or assets into account. In 2000 the Federal Employment Service spent € 23,596 million on unemployment benefits (€ 15,328 million in western Germany, the rest in eastern Germany (Bundesanstalt für Arbeit 2001b: 63f.).

Qualifying conditions

The qualifying period is fulfilled by those who were employed for at least 12 months in the reference period (the last 3 years prior to registering as unemployed) and paid compulsory insurance contributions. In certain special cases (e.g. care of family members, care of children under the age of 3), periods out of paid employment are not included in the reference period. For workers who work regularly for less than 12 months in a calendar year solely due to the peculiarity of their job - so-called seasonal workers - the qualifying period is fulfilled by being employed for over 6 months and having paid compulsory contributions during that time. Foreign workers in regular employment may obtain unemployment benefit under the same conditions as German employees.

A claim to unemployment benefit presupposes that the claimant is unemployed, has registered as such at his/her local employment office and has completed his/her qualifying period. He/she cannot claim benefit from the age of 65 onwards. An unemployed person is a worker who is temporarily out of work (unemployment requirement) and in search of employment subject to social security contributions (jobsearch requirement). So called "marginal" employment – i.e. in Germany employment requiring less than 15 hours per week or for remuneration below € 325 (or self-employment to a corresponding extent) – does not exclude the possibility of registered unemployment.

The unemployment requirement encompasses availability for placement and efforts on the part of the unemployed individual to terminate the spell of unemployment. At the request of the employment office, the beneficiary must show proof of the efforts made, provided he/she has been informed within good time of the obligation to provide such proof. Placement services are made available in principle to all those who are able and willing to work. An unemployed person who can and may carry out work under the normal conditions of the labour market is considered fit for work.

Having registered in person, those in receipt of unemployment benefit are required to report in person to the employment office if requested to do so. The previous obligation to report at least every 3 months has been dropped.

Rate of unemployment benefit

Unemployment benefit is payable at 60% of wages/salary after normal statutory employee deductions (income tax, social security contributions). The rate is 67% in the case of a worker with at least one dependent child (and for whom he/she receives tax allowance). No family allowance is payable. The rates of unemployment benefit vary according to the different tax rates which an employee must pay in the respective income tax classes. There is a contribution assessment ceiling which determines a maximum level of unemployment benefit. Its current (2001) figure is € 4448. The contribution assessment ceiling is adapted annually to the general development of wages.

The amount of benefit is based on the average weekly gross earnings on which social insurance was paid during the 52 weeks prior to the employee's claim. To calculate the benefits, first the deductions that employees are normally required to pay by law are subtracted from their gross earnings – for example, taxes and social insurance contributions. The above-mentioned rates are calculated from the resulting "lump-sum" net earnings. Hardship which may arise in certain circumstances is dealt with by special provisions.

Unemployment benefit is not subject to taxation. During the period of unemployment, medical insurance is maintained in one of the public health funds. The employment office also pays statutory contributions into the State pension fund for the unemployed.

Beginning and duration of the claim

After losing a job there is no waiting period for the unemployed person before receiving benefit. The duration of entitlement to unemployment benefit depends on the previous periods of contributory employment (during a 7-year period preceding unemployment) and the unemployed person's age according to the following table.

Table 4: Duration of entitlement to unemployment benefit

Following periods in employment subject to social security contributions totalling at least ..... months	Duration of entitlement in months by age of unemployed person				
	under 45	45 – 46	47 – 51	52 – 56	over 57
12	6	6	6	6	6
16	8	8	8	8	8
20	10	10	10	10	10
24	12	12	12	12	12
28		14	14	14	14
32		16	16	16	16
36		18	18	18	18
40			20	20	20
44			22	22	22
48				24	24
52				26	26
56					28
60					30
64					32

According to European Union regulation, jobsearch can also be carried out in other European Union countries for up to 3 months. The unemployed person may reside there during this period and will continue to receive unemployment benefit. The duration of the claim is not interrupted in the case of holidays (up to 3 weeks) notified in time to the employment office.

Supplementary income

Supplementary income which an unemployed person in receipt of benefit earns from "marginal employment" (less than 15h/week) as an employee or on a self-employed basis is deducted - less income tax, professional expenses and an allowance of 20% of the monthly benefit (but at least € 165) - from the unemployment benefit for the calendar month in which it was earned.

Acceptability of the job offer

A job-seeker is not obliged to accept a job offer which pays considerably less than the reference amount on which the unemployment benefit claim is based. During the first three months of unemployment a job offer with a wage/salary that is 20% below that amount may be refused. In the following three months a 30% lower wage/salary need not be accepted. After that period (7 months) a job offer can only be refused if the wage/salary is below the level of unemployment benefit.

A total travelling time of two and a half hours a day to and from the place of work has to be accepted for a regular working time of more than six hours and less than two hours for six working hours or less. A job offer has to be accepted even if the employment is only

temporary, if a temporary second residence is required or if the job offered is not in line with previous occupational training or activity.

Period of disqualification and lapse of entitlement

An unemployed person will be disqualified from receiving the benefit for 12 weeks (6 weeks in cases of hardship) if he/she has terminated his/her employment contract or, through conduct contrary to the terms of the contract, has given reason for the employer to dismiss him/her and so deliberately, or through gross negligence, has brought about his/her unemployment. The same suspension of benefit applies if the unemployed person has refused to take up work offered by the employment office or to take part in a training scheme. If the unemployed person has previously given cause for a 12-week period of disqualification and has received written notification of this, any remaining entitlement to benefit will lapse if the person causes a further disqualification of at least 12 weeks.

Severance pay and unemployment benefit

Severance pay which the unemployed person has received or is entitled to receive due to the termination of an employment relationship does generally not lead to a reduction of the unemployment benefit claim. But the date of payment will be delayed up to a maximum of 1 year if termination is not in line with statutory employment protection periods. During this period the jobless person has to maintain his/her own health insurance payments. If the employment contract is terminated with due notice, there is no delay in payment of benefits.

Suspension of payment

The entitlement to unemployment benefit is suspended during a period in which the unemployed person receives remuneration. The same holds true if, because of the termination of the employment contract, the unemployed person receives holiday pay. Furthermore, almost all benefits under public law which replace remuneration (sickness benefit, pensions) cause the suspension of entitlement to unemployment benefit.

Partial unemployment benefit

Partial unemployment benefit is a relatively new, independent form of wage replacement which extends the unemployment insurance system. Its aim is to protect employees who are involved in several part-time employment relationships at the same time. The loss of one of several employment relationships subject to social insurance contributions results in entitlement to partial unemployment benefit.

The condition for entitlement is that the employee was in the employment on which the claim is based for at least 12 months during the preceding two years in addition to other insured employment and is willing and able to take up new insured part-time employment (in addition to the existing employment) or full-time employment. Because of the particular risk prevailing for the unemployment insurance system in connection with this benefit, partial unemployment benefit is paid for a maximum of 6 months.

4.3 Unemployment assistance (Arbeitslosenhilfe)

Unemployment assistance serves a similar purpose to unemployment benefit, and the two form a comprehensive system of protection in the event of unemployment. But in the case of unemployment assistance, payments are subject to a means test. The regulations governing entitlement to unemployment assistance are similar to those for unemployment benefit with certain exceptions. The claims for unemployment benefit and unemployment assistance are basically regarded as integrated claims.

In 2000 the Federal Employment Service spent € 13,161 million on unemployment assistance (€ 5,094 million in eastern Germany (Bundesanstalt für Arbeit 2001b: 64), which is refunded by the Federal Government and not paid out of the contributions to the unemployment insurance scheme.

Qualifying conditions

A claimant for unemployment assistance has to be registered as unemployed at the employment office and is no longer entitled to unemployment benefit. Another condition is that the claimant is in need and has drawn unemployment benefit before. There are some exceptions to this last rule.

An unemployed person is considered to be in need if he/she cannot provide for him/herself by any other means than by claiming unemployment assistance. The means test is based on the income and assets of the unemployed person and of his/her spouse in so far as certain tax allowances are not exceeded. Some benefits are, however, not taken into account, including benefits for preventative and continuing health care, basic pension under the Federal Pensions Act and child benefit under the Federal Child Benefit Act.

Rate of unemployment assistance

Unemployment assistance amounts to 57% of net wages, i.e. after the usual statutory deductions have been made, if the unemployed person has at least one dependent child who is taken into account for tax purposes. In all other cases it amounts to 53%. The remuneration on which the assessment of the unemployment assistance is based is adapted annually. The Federal Employment Service pays the health and pension insurance contributions for people who draw unemployment assistance.

Supplementary income

The same rules apply as for unemployment benefit.

Duration of entitlement

As a rule, unemployment assistance is granted for an unlimited period - until the claimant reaches the age of 66. It is usually only payable for one year at a time. After that period eligibility must be proved again.

Recipiency

In Germany one in four jobless people does not receive unemployment benefit or unemployment assistance. These unemployed people are mainly people who have lost their qualification for payment of benefit/assistance. Others are registered with the employment office only for social security reasons (e. g. assessment periods for the state pension fund), or they are trying to find a job via the public employment service without being a claimant for unemployment benefit/assistance.

4.4 Other wage replacement benefits

For the sake of completeness three other benefit schemes, paid by the Federal Employment Service (Bundesanstalt für Arbeit), should be mentioned briefly. They are aimed at avoiding imminent unemployment.

Short-time working allowance

An allowance is available to keep employees from being laid off during temporary, unavoidable work shortages when their earnings would otherwise be lost. The object is to allow businesses to retain their experienced staff wherever possible. The short-time working allowance partially makes up for the wages lost through shorter working hours. The short-time working allowance may be paid out for up to six months. Under certain conditions it may be extended to as much as 24 months.

The allowance is granted when an employer notifies the employment office of an unavoidable, temporary cut-back in capacity due to economic conditions or events beyond the employer's control. For a business to qualify, at least one-third of the staff actually employed in the department affected by the cut-back must suffer a loss of more than 10% of their earnings during the applicable calendar month.

The amount of the allowance is based on the difference between the lump-sum net earnings at full pay and the equivalent amount for the pay the employee is still receiving. It is 67% of this difference for employees with at least one dependent child and 60% for those without dependent children.

Benefits in the event of employer bankruptcy

Bankruptcy (or insolvency) benefits ensure that employees can still draw pay if their employer is insolvent, for the last three months of the employment relationship prior to the initiation of bankruptcy proceedings. The amount of bankruptcy benefit is equivalent to the net earnings due and unpaid for the period in question. There is no limit on the amount of the benefits.

The employers' liability insurance association collects the funds for these benefits annually, retrospectively, by levying contributions from the employers themselves.

Support payments after completion of a training scheme

Support payments are available to employees completing a programme of further vocational training who register as unemployed at the employment office after the scheme. These

payments are calculated in largely the same way as unemployment benefits. They are paid for a maximum of 3 months.

4.5 Social assistance[7]

Although it is not a benefit paid only in the event of unemployment, social assistance should be mentioned here, as it represents a last safety net for people out of work who qualify for neither unemployment benefit nor unemployment assistance. Social assistance is publicly financed and granted for people in need who have no other means to support a living. Social assistance is to protect people from poverty and social marginalisation. Cost-of-living assistance (social assistance) for people in private households should cover their needs for food, housing, clothing, body care, household goods, heating and the personal things needed in daily life. The latter also include connections to the social environment and participation in cultural life to a reasonable extent.

The income and financial means of people who apply for social assistance are assessed carefully by the authority which decides about the assistance. The means test includes income of the applicant's parents and children. The assistance recipient is obliged to exploit his ability to work to secure a livelihood for himself and his/her legally dependent family members. The social assistance agency is obliged to ensure that the assistance-seeker makes an effort to find work and does actually work, except in situations where the person cannot be reasonably expected to work due to particular circumstances such as physical or mental incapacity, extreme difficulty in continuing the previous type of work in the future, or if the proper up-bringing of a child would be endangered.

The assistance recipient is obliged to accept any reasonable work that is offered. Anyone who refuses to accept a reasonable type of work may lose their entitlement to cost-of-living assistance. In a first step the assistance will be reduced by at least 25% of the applicable standard rate.

Cost-of-living assistance has to be paid by the municipalities. Therefore, the rates may differ somewhat from region to region. Currently the average need is set at about € 1 000 per month for a couple without children or a single parent with one dependent child. The amount is € 1500 for a couple with two dependent children. In 1997 there were about 1 800 000 adult recipients (aged between 17 and 59) of social assistance. About two fifths of them were job-seekers. If assisted children were added to this figure, there would be one million more recipients.

As in other countries, the phenomenon of the so-called welfare trap is discussed in Germany, too. The welfare trap arises when the level of social assistance is so high compared with the achievable market wage that, for financial reasons, it is not worthwhile taking up regular employment. Another disincentive to taking up employment is that, in the system currently in force, supplementary income earned by social assistance recipients is taken into account very restrictively when calculating the amount of benefit to be paid. With a marginal tax rate of about 85%, social assistance recipients are acting quite rationally in economic terms when they do not offer to work. The case is similar for unemployment assistance, which permits a maximum supplementary earned income of € 165. Such regulations can contribute to increasing the duration of benefit. This case is known as an unemployment trap.

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[7] Taken from Federal Ministry of Labour and Social Affairs (1999).

The assumption that social assistance in Germany is generally too high compared with the wages that can be earned from gainful employment is only partly true. Calculations show that for single people the difference between the level of social transfers and the market wage is still considerable but that the difference for larger households (single parents and couples with more than one child under the age of 18) can be very low (cf. Franz et al. 1997). Of the 1.26 million needy households in 1999, however, only 242,000 (94,000 married couples and 148,000 female heads of household each with more than one child under the age of 18) came under the latter category. This would therefore not even be 20% of the households drawing social assistance. For this group of people, however, which is often overestimated regarding its quantitative significance, it is probably not an improvement in the possibilities of earning supplementary income and thus a greater difference to the market wage which is decisive for the employment behaviour. It is probably more the availability of affordable childcare facilities that decides the extent of employment for this target group in particular.

In order to avoid or reduce the welfare trap, two further proposals have been made, both of which are intended to increase the incentive to take up work. Firstly it is proposed that in addition to drawing social assistance, recipients may also earn income from employment ("Kombilohn"). Secondly it is proposed that low-paid workers should not have to pay social security contributions, or only reduced contributions. Model projects have already been conducted for both of the proposals. The two proposals are explained in more detail in the chapter on labour market policy, under the heading of subsidies for low-wage jobs.

Excursus: Consequences of different wage-replacement benefits in the event of unemployment (Werner 1999, 21)

In the market-economy-oriented countries, the USA and the United Kingdom, labour market policy does not play a major role – including earnings-replacement benefits in the event of unemployment. This results in a considerable pressure to take up new employment. In contrast to this, countries such as Denmark or the Netherlands pay comparatively high unemployment benefit. The consequences of the differences in unemployment benefit payment are outlined below.

In Great Britain and the USA earnings-replacement benefits in the event of unemployment are very low and are only paid for a short period. In the USA, for instance, unemployment benefit only amounts to 25% - 35% of the last wage and is paid for a maximum of 26 weeks (as is also the case in GB). This results in a kind of compulsion to work. This is why long-term unemployment is also low, since if necessary, people will also accept a poorly paid job in the hope that they will be able to move up again when the employment prospects improve. This is easier in the USA than here in Germany, since in the USA there is less stigma attached to taking up a job temporarily for which one is actually over-qualified. An application of US conditions to Germany is not being considered seriously by anybody. Continental Europe has a different tradition concerning social protection. It would already be difficult for the reason that there are not enough low-grade jobs here. These are concentrated in many cases in those jobs which constitute "marginal part-time work" or "insignificant work". In the USA, with its different labour market system, there are jobs of the most varied types. In Germany many low-grade jobs have been cut as part of rationalisation programmes (above all in the manufacturing industry) or they have dropped out of the regular labour market and can often be found in the black economy (which seems to be small in Germany compared with other countries).

In the Netherlands and Denmark unemployment benefits are high. In return a "carrot and stick" policy is pursued in which a wide range of employment and training schemes are offered, but at the same time a certain pressure is exerted on the unemployed to take up work: this can occur by means of a stricter interpretation of what is a 'reasonable' job, the requirement that the unemployed person regularly proves his/her job search activities, the organisation of individual advisory and activation plans, or the obligation to take up a state-subsidised job or participate in a training scheme. All in all a trend of "welfare to work" can be detected, which means that one should be better off working than drawing benefit payments.

The combination of social protection in the event of unemployment and pressure to take up work or take part in an employment or training scheme makes this regulation more acceptable to society. Taken alone such an approach does not bring about any improvement in the labour market situation, as no additional jobs are created. From the point of view of reducing unemployment, however, it does make sense if appropriate jobs are available. This is the case when the labour market is improving in general, when state-subsidised employment can be offered (job-creation measures or other forms of employment subsidy), or when a low-grade sector is already in existence (USA, GB) or is being promoted. In all other cases this measure only affects the distribution of the unemployment: the order of the people in the "queue" of unemployed is altered. This can be useful by all means when unemployed people are "reactivated" and it is possible to prevent them from slipping into long-term unemployment. Experience shows that the longer an individual is unemployed, the more difficult it is for him/her to get back into work again.

5 Measures of active labour market policy

5.1 Theoretical reasons for labour-market-policy intervention

Labour market policy is aimed at balancing labour supply and labour demand. The aims are to facilitate adjustments associated with structural change and to compensate for economic downturns. In addition to the mere payment of earnings-replacement benefits (passive labour market policy), measures of active labour market policy are intended to facilitate the search for work, to increase regional and occupational mobility, and above all to promote the reintegration of unemployed people into working life.

With regard to active employment promotion (or synonymously also active labour market policy), first the question of principle arises at to whether this set of instruments is necessary at all, and if it is necessary, then why, to what extent and with what combination of types of measure. It is possible to derive from labour market theory five reasons supporting intervention in the processes of matching supply and demand:

Lack of transparency

Labour markets are an example of search markets where information uncertainties prevail. Workers bring with them very different occupational skills, qualifications and personal qualities. Employers, too, ask for very different qualifications for making their products or delivering their services. Thus there is not one homogeneous labour market, but heterogeneous partial labour markets, and this with a clearly increasing tendency. In this

respect services such as employment advice and job placement can be of great importance. These instruments filter information on both sides of the market and make it available to the users. In this way they create more clarity on the market, reduce information uncertainties and lead to lower search costs.

Mismatch

A cause of problems concerning labour market balance can also be found in a qualitative dimension. This is the case when, in spite of unemployment, vacancies can not be filled at all or at least not quickly enough. There can be three reasons for this. Information-related mismatch can be put down to poor market clarity (see the first argument above on this subject). Regional mismatch is characterised by the vacancies being located in different regions to the unemployed people. As a rule this is expressed in unemployment rates that vary more or less considerably from region to region. Finally there can be qualification-related mismatch, when unemployment occurs particularly intensively in certain occupations, whilst other occupations suffer from shortages of skilled manpower. Firms thus ask for different qualifications from those that the job-seekers are offering. Regional mismatch can be countered with mobility aid and regional structural policy, whilst training measures can be used to deal with qualification-related mismatch.

Lack of willingness to take risks

Owing to uncertain prospects for the future, short-term considerations can dominate among the labour market actors and this can lead to investments that are amortised only in the long-term not being made at all. Small establishments could shy away from extensive investment in training for example because of the danger of large firms attempting to poach their employees. A risk of getting into debt may occur for job-seekers, too, if it is only possible to secure capital for further training or for setting up a new firm by taking out a bank loan. Publicly assisted initial and further vocational training as well as measures aimed at promoting self-employment can counteract the risk-averse behaviour that is generally prevailing, especially on the part of the workers.

Discrimination

Discrimination against certain groups of people (e.g. women, foreigners or disabled people) on the labour market is nothing unusual. As a result of the existence of unchangeable background characteristics, employers expect a lower productivity from certain groups of people. This can lead to certain groups not being taken into consideration in recruitment decisions. The task of labour market policy in this context would be to break down justified or unjustified prejudices that employers have against certain applicants. Besides information campaigns, instruments that could be considered in this respect are wage subsidy schemes, which can always also be seen as (partial) compensation for a really lower capacity to work, training measures and various forms of trial employment.

Hysteresis

Structuralisation processes as a result of the already long period of high unemployment in Germany can not be explained solely by the classical form of discrimination. Stigmatisation and reduced employability are not least also the result of long-term unemployment. The longer a spell of unemployment lasts, the greater the probability is that the unemployed

experience losses of human capital and a discouragement effect when searching for work. Firstly the firms use the duration of unemployment as a "negative" signal for an applicant's unknown productivity, secondly the longer experience with unemployment leads to a lower search intensity among the individuals affected as a result of diminishing self-confidence. When there is general underemployment, sorting processes begin which result in the weakest providers of labour being rejected. In this context labour market policy is given not only the task of effectively reintegrating long-term unemployed people into the primary labour market but also the task of using suitable preventative counselling to find at an early stage the people who would be expected to be unemployed for a longer time without labour-market-policy intervention.

In conclusion for this chapter it can be established that a multitude of studies on the causes of the level and structure of unemployment provide indications that the theoretical pre-conditions mentioned above for the use of labour-market-policy instruments are given. Nonetheless, before using them it is always also necessary to check what alternative possibilities of public intervention could be considered to solve the problem of labour market balance (cf. Eichhorst/Profit/Thode 2001). In this context it would be necessary to discuss for example whether suitable measures for balancing labour supply and labour demand are given in the basic conditions of labour market policy (e.g. in issues concerning wage policy and working time policy). This would go beyond the scope of this paper, however.

There is a broad spectrum of measures of active labour market policy in Germany. Most of the measures are financed from the budget of the Federal Employment Service, i.e. by the contributions paid into the unemployment insurance system. Every year about € 20-22 billion are spent on these measures, about half of it in eastern Germany. A first overview of the expenditure on active and passive measures was already given in Table 1. In the OECD comparison, Germany is in the upper mid-table. Table 5 gives a detailed overview of the use of the measures in Germany.

Table 5: Participants in major labour market schemes – annual averages in thousands

Scheme	1995	2001
Short-time workers	199	123
Job creation schemes	384	243
General schemes	276	167
Structural adjustment measures (SAM)	108	76
Training schemes	450	315
Rehabilitation	42	42
Language courses	42	25
Pre-retirement part-time	0	50
Total	1 554	804
Unemployed benefit recipients aged 58 and above no longer looking for work	152	223

Source: IAB, Mitteilungen aus der Arbeitsmarkt- und Berufsforschung 34/1: 25

In the following chapter the measures are described in detail. We concentrate on the major instruments, since it is not possible to cover all the different measures.

5.2 Measures of further vocational training

The aim of further vocational training measures – in so far as they are conducted by the Federal Employment Service – is to reintegrate unemployed people into the labour market and to avoid unemployment where it threatens. In addition these measures maintain a certain supply of up-dated and certified qualifications for the national economy. A broad range of training schemes include methods by means of which individual occupational knowledge and skills are evaluated, preserved and broadened or are adapted to new technological developments. These measures provide opportunities to promote individual careers, they offer vocational qualifications and permit the participants to work in new employment relationships.

The measures run by the Federal Employment Service require the people concerned to have already successfully completed a course of initial vocational training or to have already gained work experience, or both. They are aimed primarily at upgrading existing occupational skills. They often reflect new technological developments and structural change, or serve to certify existing occupational skills if the individuals performing the skills have not yet gained any formal vocational qualifications. Measures of this type continue to be regarded by the Federal Employment Service and the German Federal Government as important measures for the promotion of employment. More recently the Federal Employment Service has placed particular emphasis on qualifications in the field of information technology (IT) and in the electronic media sector.

The Federal Employment Service bears the directly incurred costs of the further training in all of these cases. This means in particular the fees for courses and the costs for enabling the participants to be available for the courses. This includes the costs for accommodation etc. when it is necessary for a participant to attend a course held somewhere far away from home. And in certain cases childcare costs may be paid up to a maximum of € 102.

Participants in full-time further training courses can also receive subsistence allowances from the Federal Employment Service if certain conditions are met. These conditions imply that the individuals concerned have previously been in employment subject to social security contributions for a minimum of one year. The alternative to this regulation is that the individual has previously received unemployment benefit or subsequently unemployment assistance. This applies to full-time courses. In the case of part-time courses, in some circumstances the participants may be paid a proportional subsistence allowance.

The subsistence allowance amounts to 67 % of the net wage for participants who have at least one dependent child in their household, otherwise the payment is 60 %. One pre-condition in all of these cases is that participation in the further training is regarded as "necessary" by the funding agency. In cases where the person has not yet met the pre-condition of employment subject to social security contributions, but has received unemployment assistance until the start of the measure, a subsistence allowance may be paid which is equal to the level of unemployment assistance.

Expenditure (cf. Bundesanstalt für Arbeit 2001b: 35f.) on such further training measures totalled € 6,808 million in 2000, € 4,060 million of this was incurred in western Germany and € 2,748 million in eastern Germany. During 2000 a total of 551,500 workers took part in further vocational training schemes. 337,900 in western Germany and 213,700 in eastern

Germany. This implies an increase of 12.4 % compared with the previous year. In addition to this a slight rise in the participation of special target groups was also recorded. These target groups include women, people who have not yet gained any certified vocational qualifications, the long-term unemployed etc.

- In the average for 2000, 183,500 women took part in further training measures, 106,600 in western Germany, 76,900 in eastern Germany. This represented 52.1 % of all participants, which means that the proportion of female participants was higher both in the east and in the west than the proportion of women among the unemployed. In this way the aim is met which is formulated in section 8 of volume 3 of the Social Code, that women are to be supported at least in proportion to the size of their share of unemployment.
- At 21.2 %, the proportion of long-term unemployed was slightly higher than in 1999. On average 74,500 long-term unemployed people took part in further training measures. 39,000 of these were in western Germany, 35,500 in eastern Germany.
- The proportion of people without formal training qualifications rose significantly once again in comparison with the previous year, at a growth rate of 12 %. On average 106,000 people without formal training took part in the further vocational training measures (85,900 in western Germany, 20,700 in eastern Germany). This corresponds to 30.3 % of all the participants.

Complementary to the measures to support individual further training, there are measures to support institutions providing vocational training. The aim of these measures is to maintain or to build up an adequate offer of training in a certain region in order to meet labour market demand and the demand resulting from occupational change. The measures are orientated towards improving the employment structures of individual industries and also towards helping to improve the labour market situation.

Financial support from the Federal Employment Service can go to local authorities, to associations of such authorities, to Chambers of Industry and Commerce, to employers' associations and trade unions, to professional or charitable institutions, to foundations, to organisations with a specific aim and also to firms offering in-firm further training.

Financial support may be given in the form of subsidies or in the form of loans for investment in buildings and equipment. This support should normally not exceed 50 % of the entire costs. If a subsidy is granted for investment in a building, then it must be limited to a maximum of 30 % of the costs. Interest at a rate of 2 % per year is charged on the loans.

Concerning the effectiveness of training schemes it should be noted that there has been a lively debate in more recent years in Germany. Some evaluation studies which were carried out using econometric methods on the basis of individual data did not find any effects of participation in courses serving as further training. The participants' employment prospects were not higher than those of unemployed people who did not take part in such measures (cf. Fitzenberger, Speckesser 2000 for an overview). Other studies found small positive effects which were not very stable (cf. Fitzenberger, Prey 1997, 2000).

Recent IAB research, however, which was carried out using regional data for eastern Germany, showed that such measures resulted in significantly higher employment rates for the participants.[8] The finding of the analyses was that the growth rate of regional employment

[8] A newly developed approach, the so-called shift-share-regression was used, which is an extension of a technique developed by Patterson (1991). The response variable was the growth rate of employment in one

was positively related to the expenditure on training. It is not possible to assess the efficiency of the measures using this kind of analysis, since especially the comparison of gains and costs is not included, but it is possible to show that the measures had an effect.

The difference to findings from previous studies can be explained by the fact that in most of these studies the effect of a measure is assessed by using data for individual people. Normally, the employment prospects of those participating in a measure are assessed in comparison to a sample of unemployed people. In this case indirect effects of the measures are not taken into account. The regional analyses conducted by the IAB show these effects, which might include a better match between both sides of the labour market in a regional economy and the demand effect induced by the inflow of additional means, fuelling the regional economy. An additional problem that plagued most evaluation studies carried out with data for individual people is the very slim data base which limits the possibilities for finding significant training effects.

5.3 Job creation measures

Job creation measures (Arbeitsbeschaffungsmaßnahmen - ABM) are a special kind of wage subsidy programme, since here the subsidy is paid in most cases not to private enterprises, but to public agencies and non-profit organisations not associated with profit maximisation. The aim of job creation measures is temporary employment for workers who require help to integrate into the regular labour market. This applies in particular to long-term unemployed people who are entitled to unemployment benefit. Projects which are promoted by the Federal Employment Service in this respect must be in the public interest and must be "additional". The latter implies that without the support the project concerned could not be carried out or at least would not be possible at that time.

The measures are promoted by means of subsidies or loans to the institutions that implement them. These can be either individuals or legal bodies. Measures in the manufacturing industry are only carried out if they are implemented by a firm. The support amounts to between 30 % and 75 % of the "creditable" remuneration. Under specific conditions, which are in fact conceded to apply very often, the subsidy can reach 100 % of the wage. The remuneration is creditable as long as it does not exceed 80 % of the average wage that is normally paid for non-subsidised employment relationships in the labour market segment in question. Collectively agreed wages are generally assumed to be paid.

Additional subsidies and also loans can be granted for measures which are of particular importance for the labour market. Normally the support from the Federal Employment Service is paid for one year, but in certain cases this may be extended to two years. Particular measures can even be supported for 36 months if the workers concerned are guaranteed a permanent job following the measure.

Projects which especially improve the conditions for the creation of permanent jobs or which result in structural improvements on the labour market are given priority regarding support. The latter applies for example if employment prospects are opened up to workers who have particular problems finding jobs. Priority is also given to measures that improve the social infrastructure or the environment. In this way it becomes clear that the relevant job creation

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industry in a special region. A number of exogenous variables were used, including the expenditure on training schemes in the previous year, measured in relation to the number of gainful employees in a region (Blien et al. 2002).

measures do not only serve to provide employment for individuals. They are also carried out with general economic aims such as upgrading the public infrastructure and social relations.

Especially in eastern Germany, in the initial period following German unification, a great many public tasks were dealt with by means of these job creation measures. At the time of unification a multitude of firms had left behind considerable environmental damage and structural problems. Before new investment could be made in mining, the chemical industry or former military sites, it was necessary to eliminate their problems and to tackle environmental damage. This occurred largely by means of large-scale job creation measures, which therefore not only met the labour market aim of immediate and direct reduction of unemployment but also subsequently created conditions for a long-term development of employment.

For the reasons given, in addition to the immediate employment effect of job creation measures they are also expected to have indirect effects for the labour market. At least this is what those responsible expect of these measures. For unemployed people, work in a job creation scheme is associated with a psycho-social significance which gives the programmes a relevance beyond the preservation of qualifications and social competence.

Job creation measures contributed, especially in the eastern part of Germany, to a considerable reduction in unemployment in 2000 (cf. Bundesanstalt für Arbeit 2001b: 37f.). In the annual average 203,600 workers were supported. The corresponding figure for the previous year was 234,100. Of the workers supported in 2000, 58,100 were in western Germany (66,300 in the previous year) and 145,500 in eastern Germany (previous year 167,800).

Job creation schemes are important for those groups of workers who require special forms of assistance. In 2000 over 82 % of the people in such job creation measures were (previously) long-term unemployed people, and the percentage of younger workers, i.e. those under the age of 25, was 9 %. The proportion of women in the measures in eastern Germany was over 56 % and it was more than 51 % in Germany as a whole. The Federal Employment Service spent € 3,680 million on these job creation measures. This figure includes the increased support in certain sectors. Almost € 1 billion was spent in western Germany and € 2.6 billion went to eastern Germany.

The discussion surrounding the effectiveness of measures of active labour market policy is pursued even more energetically in the case of job creation schemes than it is in the case of other active labour market policy measures. On the basis of similar studies to those conducted on training measures, various research groups expound that these employment creation measures have no effect at all for the labour market, or even worse, that they are associated with a negative effect. This negative effect, which is put down to unemployed people ceasing to search for a job that is not supported, reduces the chances of being integrated permanently into the labour market (cf. Fitzenberger, for an overview). Again, other studies found unstable positive effects (Eichler, Lechner 1999).

As in the case of the promotion of training measures, a new IAB study based on regional data obtained new findings about the employment effects of job creation measures (cf. Blien et al. 2002). This study dealt in particular with the eastern German labour market. In this case the job creation measures and the structural adjustment measures (see below for details) were dealt with together. The aim of this study was to show what effect these measures have on the

regional development of employment. Again a shift-share-regression was the approach which was applied.

In fact it was possible to show quite considerable effects almost equal in size to those of the training measures. The main difference in the case of job creation measures and structural adjustment measures is that they do not have such a long-term effect as the training measures. With job creation measures the coefficient halves if the variable is included with an additional lag of one year.

Again, there is a remarkable difference between the results of the studies conducted using microeconometric methods and individual data and the studies conducted using regional data. This can presumably be explained by the fact that with regional data the indirect effects of the measures are shown to advantage. Especially in eastern Germany, where there are still many untapped resources, the inflow of labour market policy funds has positive effects on employment there.

5.4 Structural adjustment measures

The aim of structural adjustment measures (SAM) is to provide temporary employment for workers who require special help to compensate for the loss of their jobs. Another aim is to counter particular problems on the local labour markets. In general the SAMs can be categorized as wage subsidies; they are very closely related to job creation measures (ABM), but follow a somewhat different conceptual scheme. The measures are designed in such a way that earnings-replacement benefits which are normally paid in the case of unemployment are used here to create employment. For this the corresponding sum of money is paid to the provider of the measures as a wage subsidy. The subsidy thus goes to the employer of the worker concerned.

One key idea that was originally connected with structural adjustment measures was to promote the structural change on the labour market and in the economy. For this reason the measures are restricted to a number of special fields. These include support for tasks involving the conservation or improvement of the environment and the improvement of the infrastructure. Another critical area is the improvement of social services or the support of establishments providing child and youth welfare activities. As in the case of job creation measures, employment in the commercial sector is only supported where it also occurs in firms.

The support is only granted for workers who were previously unemployed or directly threatened by unemployment and who also fulfil the requirements for drawing unemployment benefit or unemployment assistance. Another pre-requisite is that the workers would not be able to find employment in the near future without the measure. The wage subsidy must not exceed the average rate for unemployment benefit or unemployment assistance. Moreover, it must not be higher than it would be in the case of a job creation measure. The provider of the measures pays the remaining costs for the employment of the person in question and of course for equipment, machinery etc. Normally the wage subsidy in the context of SAM is paid for a maximum of 36 months. The measure may only be extended to a maximum of 48 months in cases where the worker concerned is to be taken on permanently following the measure.

The SAM programmes benefit in particular the labour market in eastern Germany (cf. Bundesanstalt für Arbeit 2001b: 38). In 2000 only 11,700 people were employed on average

in SAMs in western Germany, the remaining 98,100 people were in eastern Germany. In the previous year it was still 195,700 for the whole of Germany. The sharp drop in the number of people involved in the scheme corresponds to a tightening of the conditions under which the measures may be implemented.

In eastern Germany there is a special programme which was called SAM for business enterprises. This programme was restricted to individual target groups comprising young workers, long-term unemployed people, disabled people and older workers. Within the scope of this programme a maximum subsidy level of € 693 per worker has been in place since 1 January 2000. In this special programme the number of workers assisted fell from 131,900 in August 1999 to 31,000 in December 2000. This implies a decrease of 76.5 % in 17 months.

In addition to SAMs and job creation measures there are other measures with wage subsidies paid to firms that recruit long-term unemployed people. This programme is now funded by the Federal Employment Service, whereas it used to be financed from a special budget of the Federal Government. From 1995 up to and including 2000, € 1.4 billion was spent on wage subsidies of this kind in western Germany. The figure for 2000 was € 223.7 million. In eastern Germany € 527 billion was spent on such wage subsidies in the period from 1995 to 2000. In 2000 it was still € 90.2 billion.

5.5 Bridging allowance

Bridging allowances for people wishing to start up a new business are aimed at unemployed people who intend to earn their living in future by becoming self-employed. People who are entitled to unemployment benefit are entitled to this subsidy. These people are paid an allowance equivalent to the level of unemployment benefit and the contributions for social security. The social security contributions include payments made by the Federal Employment Service to the pension insurance on behalf of unemployed people. As long as the allowance for people setting up new businesses is equivalent to the level of unemployment benefit and the incidental payments incurred, this measure does not incur any extra costs.

In 2000 the Federal Employment Service approved such allowances for people wishing to set up businesses in 92,600 cases (Bundesanstalt für Arbeit 2001b: 38f.). This was slightly fewer than in 1999, when the overall figure was 98,100. The overall flow of money amounted to € 751 million, this was almost the same as the expenditure for 1999. 62,200 cases were located in western Germany in 2000. The corresponding payments totalled € 534 million.

Besides granting financial allowances, the Federal Employment Service is included in the entire process by providing advice and information. In this way the Federal Employment Service becomes an agency which is not only of use to the unemployed and to existing firms, but also to people setting up firms on a self-employed basis and to professionals working in this field.

What is of particular importance in the case of allowances for setting up a business is the hope that this measure will lead to further jobs being created. According to a study conducted by the Institute for Employment Research, newly established businesses in eastern Germany have created more jobs than in western Germany. Within three years, for every 100 newly established firms in eastern Germany there was an additional volume of 108 people who had been hired in these firms. In western Germany there were 94 additional workers recruited for every 100 such business start-ups (Wiessner 2001).

5.6 Promotion of the low-wage sector

5.6.1 Reduction of the welfare trap

As mentioned earlier, the arrangement of social security can contribute to low-wage employment not being created in the first place or not developing. If the social transfers are high compared with the obtainable market wage, it may in certain circumstances be worthwhile remaining in social assistance instead of looking for employment. In this case a so-called welfare trap develops.

In order to overcome or reduce the welfare trap it has been proposed to permit social assistance recipients to earn an income from employment in addition to drawing benefit ("Kombilohn" [wage top-up]). This results in an incentive to take up work, since low-wage employment could constitute a way out of unemployment. It must be taken into account, however, that in some circumstances a previous social assistance recipient who was unemployed but is now in work could, as a result of the wage top-up, receive a higher disposable income than other workers (who have not previously drawn social assistance) with an identical earned income. Such an unequal treatment only seems to be justifiable – if at all – for a limited period and only up to a certain upper limit. If on the other hand all workers with a low income were to be included in the circle of the beneficiaries and thus received the same transfer payments with comparable personal circumstances, the concept of a wage top-up would probably cause a considerable need for funding.

Improving the possibilities for social assistance recipients to earn supplementary income is basically a possible variant of a negative income tax concept. A number of more recent, empirically sound studies show that, depending on the arrangement, such approaches orientated towards negative income tax concepts can be expected to have at best slightly positive, but possibly even negative labour market effects (cf. Buslei et al. 1999, Gern 1999, Bassanini / Rasmussen / Scarpetta 1999). Two reasons in particular are responsible for this: if firstly the subsistence levels are set at the current level of social assistance, improved regulations for calculating the amount of benefit to be paid lead to high burdens on the public budgets and consequently may also result in negative effects on the demand for labour in the economy as a whole. Additional costs for the public budgets would arise above all because, for reasons of equal treatment, groups of people who were previously not supported would be able to draw social transfers. Secondly, although the incentive to work is increased among certain groups (above all social assistance recipients who have not yet worked), it is weakened for other groups which were not so far supported by social transfers.

It can therefore be said that any positive labour market effects as a result of improving the possibilities of earning supplementary income are to be classed as uncertain and that in addition fiscal risks exist. Admittedly the judgment changes if the introduction of wage top-ups were linked with a reduction in the level of social assistance (e.g. for employable recipients). The supply pressure would increase even more for the assistance recipients and resources for funding improved conditions for calculating the amount of benefit to be paid would become available. Growing risks of poverty would have to be accepted with this variant, however.

5.6.2 Subsidies for low-wage jobs

Following the experiences made in the USA, there are plans in Germany to expand low-wage employment. However, in order to avoid the problem of the "working poor" which is associated with greater downward wage disparity and which can be seen in the USA, various approaches aimed at subsidising low incomes are being discussed and tested in model projects. They are described in the following paragraphs.

Subsidisation of low wages can not be contemplated independently of the social security system. For the level of the transfer payments has the effect of a kind of "minimum wage" and can trigger off disincentives to work. However, social transfers should not generally be classed as a "disincentive". What is behind the level of transfer payments is more an objective associated with distribution policy, namely the income that society would like to give to those who are unable to perform gainful employment for individual reasons (e.g. sickness, disadvantage) or as a result of the labour market situation.

In Germany the creation of employment – especially at the lower end of the wage scale – is hindered by at least three disincentives associated with institutional factors. A first obstacle is the so-called "marginal part-time work threshold". This is to be seen as an obstacle to employment because it leads to a jump in social insurance contributions above an income of € 325. Above this threshold the worker has to pay the full social security contribution. A second obstacle to the creation of employment is, as already mentioned in the chapter on social assistance, the so-called "welfare trap" or "unemployment trap". Finally also the specific construction of the measures aimed at balancing family burdens also creates disincentives. Social assistance recipients receive a substantially higher amount for each dependent child than the regular child allowance that is paid irrespective of income or alternatively the amount per child that can be deducted from the taxable income.

In order to raise the obtainable net income and thus to provide an incentive to take up work in a "low-wage job", model projects have been started in which low-earners pay only low social security contributions or none at all. This support focuses on a subsidisation of the employers' social security contributions (the so-called Saar Model) and a subsidisation of the employees' social security contributions (the so-called Mainz Model), both of which are aimed at low-earners.

What must be highlighted here is a variant of the Mainz Model mentioned above which was tested in a special government programme called "Chances and incentives to take up employment subject to social security contributions" ("Chancen und Anreize zur Aufnahme sozialversicherungspflichtiger Beschäftigung" - CAST). The CAST variant of the Mainz Model has been on trial since July 2000 in two eastern German employment office areas and in four employment office areas in Rheinland-Pfalz. It is aimed predominantly at people with little (formal) qualification and the long-term unemployed, but the (fixed-term) support is not restricted to these groups. The main precondition is an employment relationship subject to social security contributions, paying a collectively agreed wage or a local wage rate and with a working week of at least 15 hours and an income of between € 325 and about € 800. For couples the lower and upper income limits are doubled. In mid-2001 recognisable acceptance problems led to the assistance conditions being modified (in particular the extension of the maximum duration of the assistance from 18 months to 36 months) which resulted in a slight increase in the assistance figures. From July 2000 until the end of December 2001 this form of assistance was granted 838 times in the participating employment office areas; on the

reference date at the end of December 526 cases of this assistance were counted in the statistics.

It must be said that the use of this measure, especially in eastern Germany, has so far fallen far behind the original expectations. Apparently the development regions in eastern Germany are having particular problems with the acceptance of both of the programmes, because there seem to be other more favourable support possibilities. This applies above all for the Saar Model, with only ten cases approved in Saxony. But the Mainz Model, too, is taken up more hesitantly in Brandenburg than in Rheinland-Pfalz. As of 1 January 2002 the Mainz Model has been extended across the whole of Rheinland-Pfalz; in the meantime there are plans to extend it even further to cover the entire country. A comparative analysis of the use of different wage top-up models in Germany recently came to the conclusion that an expansion of the Mainz Model on the basis of the use in Rheinland-Pfalz could lead to some 34,000 cases of this assistance per year in the country as a whole (Kaltenborn 2001, p. 50). In view of the high unemployment level in Germany it would thus be a rather modest contribution to improving the employment problems. In addition the possible 34,000 assistance cases are to be seen at best as an upper limit of the potential labour market effect.

6. Concluding remarks – new developments

6.1 Job placement and the benefit system

Among the industrialised countries Germany belongs to the category of countries with relatively high levels of unemployment protection. (ILO 2000: 147) These countries are characterised by a relatively high level and long duration of their unemployment insurance benefit payments, by extensive unemployment insurance coverage, and often by an additional layer of employment protection legislation aiming at greater employment security. Despite the recovery of economic growth in the OECD countries since the mid-1990s, unemployment rates are decreasing only slowly. Indeed, some of the larger countries with a high level of protection against unemployment, such as France, Germany or Italy are characterised by still high unemployment levels. However, the strong economic performance of some OECD countries demonstrates that the employment intensity of growth can still be sufficiently high to achieve substantial reductions in unemployment rates. For example, among the countries with high-level unemployment benefits, Denmark and the Netherlands have achieved the largest reduction in unemployment.

The various studies undertaken to assess the effect of unemployment benefit on unemployment and employment are summarised by the ILO (2000: 152ff.). While the duration of benefits may have some influence on the persistence of unemployment most studies concluded that the influence of replacement ratios was neither large nor negligible.

These results are more or less confirmed by Steiner (1997), who investigated the extended benefit-entitlement periods and the duration of unemployment in West Germany. He used a panel of households (the annual Socio-Economic Panel) covering the period 1983 to 1994. The results of his econometric analysis indicated that the prolongation of entitlement to unemployment benefit increased the duration of unemployment for males, but had little effect for females. This result contradicts the popular belief that disincentive effects of the unemployment insurance system are especially severe for females by prolonging "wait unemployment" before they withdraw from the labour force. The estimation results also

show, for both males and females, that only considerable reductions of the income-replacement ratio may have a sizeable effect on individual unemployment behaviour. We add that reductions plus stricter criteria for what is considered a "suitable" job may also discourage efficient job search and thus lead to allocative inefficiency in the labour market.

A more recent econometric study (Schneider/Hujer, 1999) comes to the conclusion that a reduction in unemployment benefit brings about a drop in unemployment. However, no statement is made about the size of the reduction needed to result in a substantial drop. With regard to the duration of benefit entitlement it is argued that a reduction after a certain duration of unemployment will have little effect as this group of unemployed people frequently consists of the hard-to-place unemployed. The jobs for these people simply do not exist.

"Activation" is currently the most important reform in European public employment services. It is also one of the cornerstones of the European Employment Strategy and is expected ultimately to lead to an increase in employment. Activation consists of three steps: (1) assessment of the abilities of the unemployed and his/her situation; (2) counselling on job and training opportunities; (3) after a defined period of receiving unemployment benefits, a regular job or an active labour market measure, in terms of a subsidized job or a training scheme, has to be offered. From that moment on - as a rule before six months for youths, twelve months for adults - benefits are only available in exchange for an active participation in work or training. The German government now adopts this trend. A new law, the so-called Job-AQTIV Law (where Aqtiv stands for: a = activation, q = qualification, t = training, i = information, v = placement) suggests the following measures:

- Regular interviews with the unemployed to determine their skills and capabilities (assessment). This is followed by counselling on job opportunities and/or training schemes. The aim is to conclude a "contract" of integration with obligations on both sides;
- The assessment of the jobless can be contracted out to private agencies;
- Stricter application (e. g. for not being on time for a job interview) and enforcement of the "acceptability of job" criteria (e. g. by suspension of benefit payment);
- The introduction of "profiling" for all new jobless people. The aim is to combat ensuing long-term unemployment as soon as possible and not only after the individual concerned has become long-term unemployed. Thus, measures directed towards long-term-unemployment, can already be started when the assessment (profiling) of a person applying for unemployment compensation shows the risk of prolonged unemployment;
- Providers of re-/training measures for unemployed people will be integrated into making placement efforts for their trainees. Thus training should become better tailored to the needs of industry. Training providers who fail to place sufficient people who have successfully completed their training courses risk no longer being considered by the Federal Employment Service for further financing of their courses. Training providers may also be paid a fee for placements.
- Closer co-operation between social assistance agencies and the Federal Employment Service. As has already been noted, social assistance is paid by the municipality. Therefore, unemployed social assistance claimants have a more restricted access to re-integration measures offered by the Federal Employment Service, which is first and foremost responsible for unemployment benefit recipients;
- Closer co-operation between the Federal Employment Service and private placement agencies. The latter can be paid a fee for the placement of an unemployed person. After a period of three months of unemployment the jobless can go to a private agency;

- "Job rotation" as a new labour market measure. Wage subsidies of up to 100% can be paid to employers who recruit an unemployed person during the retraining period of a staff member.

6.2 Labour market policy and evaluations

In-depth and international analyses (Martin and Grubb, 2001; Eichhorst et al, 2001, 193 ff.) which do not only list the particular use of measures, but also take into account deadweight and displacement effects come to the conclusion that active labour market policy alone can not eliminate unemployment decisively. The success of active labour market policy depends quite considerably on cyclical and structural factors, on the tax, social insurance and social transfer systems and on the regulation of the labour and products markets. The effects of the measures of active labour market policy are probably to be found in general less in a lasting reduction of the unemployment level and more in a redistribution of the risks of unemployment: the chances of the problem groups in the labour market are improved – possibly at the expense of job-seekers who are not receiving assistance. Furthermore, active labour market policy can also be seen as a necessary accompaniment for strategies aimed at creating jobs (e.g. by speeding up economic growth or by means of a greater employment intensity with the given economic growth), firstly by maintaining, expanding or adapting the human capital of the unemployed by means of active measures and secondly by increasing the resources available for structural policy (in particular infrastructure measures) – as is intended with the Job-AQTIV law that has just been passed. Thus it would depend on the limited resources for labour market policy being used as sensibly as possible to reduce structural unemployment. However, because it depends on being able to offer "tailor-made" solutions to the problems according to the different needs of each individual case, labour market policy requires a set of flexible instruments from which individual programme packages can be drawn up. The prime success criterion of labour market policy measures must be the reintegration of the participants into the so-called "primary labour market". In this context not only the questions discussed previously as to the extent of the use of the measure arise but also the question as to the concrete implementation of the various programmes. In this respect a number of conflicts of aims emerge which should be looked into by means of further work in the field of impact research:

What level of benefits during the measures? Reasons for new benefit entitlements?

The level of benefits received during the measure can range, depending on the type of measure, from unemployment benefit as the minimum (e.g. in the case of training measures) to a wage orientated towards the market (e.g. in the case of job creation measures) as a maximum. What is of particular significance here is whether the participation in a measure results in new benefit entitlements (e.g. to unemployment benefit). In general it can be said that the more closely the "remuneration" from the measure is orientated towards the market wage and the more new benefit entitlements arise from participation in the measure, the less willing the programme participant is to look for alternative employment during the measure (and possibly afterwards). On the other hand it is true that the closer the remuneration from the measure is to unemployment benefit and the less benefit entitlements arise as a result of participating in the measure, the less willing the unemployed person is to take part in the programme at all.

Measures within firms or external measures?

Measures within firms (e.g. trial periods of work, wage subsidies) increase the chances of the participants becoming reintegrated into the labour market, whether it is because the participants are taken on by the firm concerned or because they can apply to other firms better from a position of employment in a firm. Avoidance of the "stigmatisation effect" that threatens in the case of measures conducted outside of firms (e.g. with training providers or job-creation companies) is opposed, however, by the disadvantage of the possible deadweight effects.

When should the intervention take place?

The question here is whether labour market policy intervention should begin at the time when integration problems have actually become visible (e.g. at the onset of long-term unemployment) or whether labour market policy activities should be geared towards detecting people who are hard-to-place as early as possible and then intervening with measures immediately (so-called "profiling"). To the extent that early recognition of problem situations fails, the advantage of a later intervention would be the fact that assistance could be focused on the people who really need support. Deadweight effects and the costs of the measures can be reduced in this way. On the other hand, the disadvantage of a late intervention is that it might then be considerably more difficult and more costly to get the people concerned back into employment.

How long should the programmes last?

With regard to the duration of the programmes, too, it is not possible to give a clear recommendation. Long programmes entail the danger that participants in the measure are almost "locked up" and have neither much opportunity nor a great incentive to seek work actively. With short programmes, however, it is not always possible to balance out the deficits of the people concerned, which are in some cases quite considerable (e.g. as regards qualifications).

How much "support by making demands"?

Activation requires that unemployed people can be offered either jobs or at least participation in labour market policy measures. Such activation strategies come up against limiting factors because budget restrictions only permit a very specific and not a broad utilisation of labour market policy measures and as a result of a lack of jobs not every unemployed person can be offered a job or training place. If the receipt of transfer payments is made dependent on participation in active measures, then this can be seen as a test of the people's willingness to work. An incorrect allocation of active measures can occur, however, if they are used predominantly as a test of the unemployed individuals' inclination to work.

The OECD concludes in its Employment Outlook of 2001 (OECD 2001, 31) that "experience with active labour market programmes has shown the importance of more careful design and much greater emphasis on rigorous short- and long-term evaluation. Some relatively inexpensive policies (notably assistance with and active encouragement of job-search) have been found to be among the most cost-effective for substantial numbers of the unemployment. Another widely accepted priority is to continue to integrate active and passive labour market programmes and to improve the delivery of "passive" unemployment and welfare benefits, so

as to encourage active participation in the labour market. As a consequence, the distinction between "active" and "passive" programmes should become less important in future."

From the latest reform strategies pursued by the German government it can be seen that the measures of active and passive labour market policy are still regarded as important to combat unemployment and to improve the matching function of the German labour market. Many different instruments of active labour market policy are in use in Germany and they are only slightly "modernised" in the new law. But the new Job-Aqtiv Law, with its emphasis on activation of the unemployed, follows the trend observed in other countries and brings together elements of active and passive labour market policies. The multitude of instruments and the high level of expenditure is partly a consequence of the events which followed German unification more than ten years ago. The eastern part of Germany is still characterised by high levels of unemployment. Only parts of its economy can stand up to competition on the world market. In this situation a high degree of intervention in the labour market is implemented by the German state to ease the labour market situation and to make it socially more acceptable.

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